

ENGINEERED CAPITAL GAINS TRANSACTIONS

THE SUPERIOR TRANSACTION

The Numbers - California Chart 1

	<u>Transaction</u>	<u>Straight Sale</u>
Cost Basis	\$100,000	\$100,000
Sale Price	\$1,000,000	\$1,000,000
Capital Gain	\$900,000	\$900,000
Current Federal Capital Gain Tax (based on income level above \$400,000)	23.8%	23.8%
Actual Current Federal Capital Gain	\$214,200	\$214,200
California State Gain Tax *	10%	10%
Actual California Gain Tax	\$68,580	\$68,580
Total Gain Tax	\$282,780	\$282,780
Gain Tax Paid	Zero	\$282,780
Amount Available for Investment	\$1,000,000	\$717,220
Amount in Estate at Death	Zero	\$717,220
Asset Amount at Risk	Zero	\$717,220
The Magic Number	\$282,780	Not available

* This is an approximation. State Codes can have an effect on the actual dollar amount.

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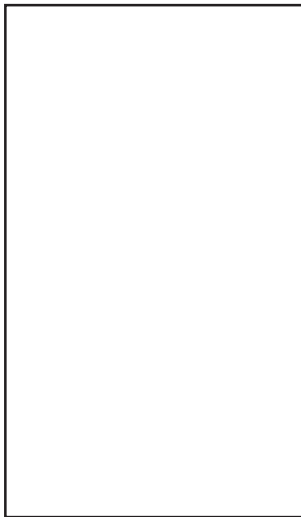
THE SUPERIOR TRANSACTION

Chart 2

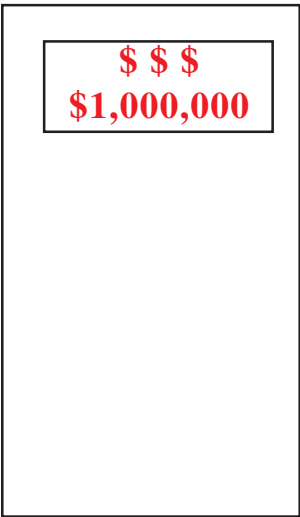
Client



DNGT



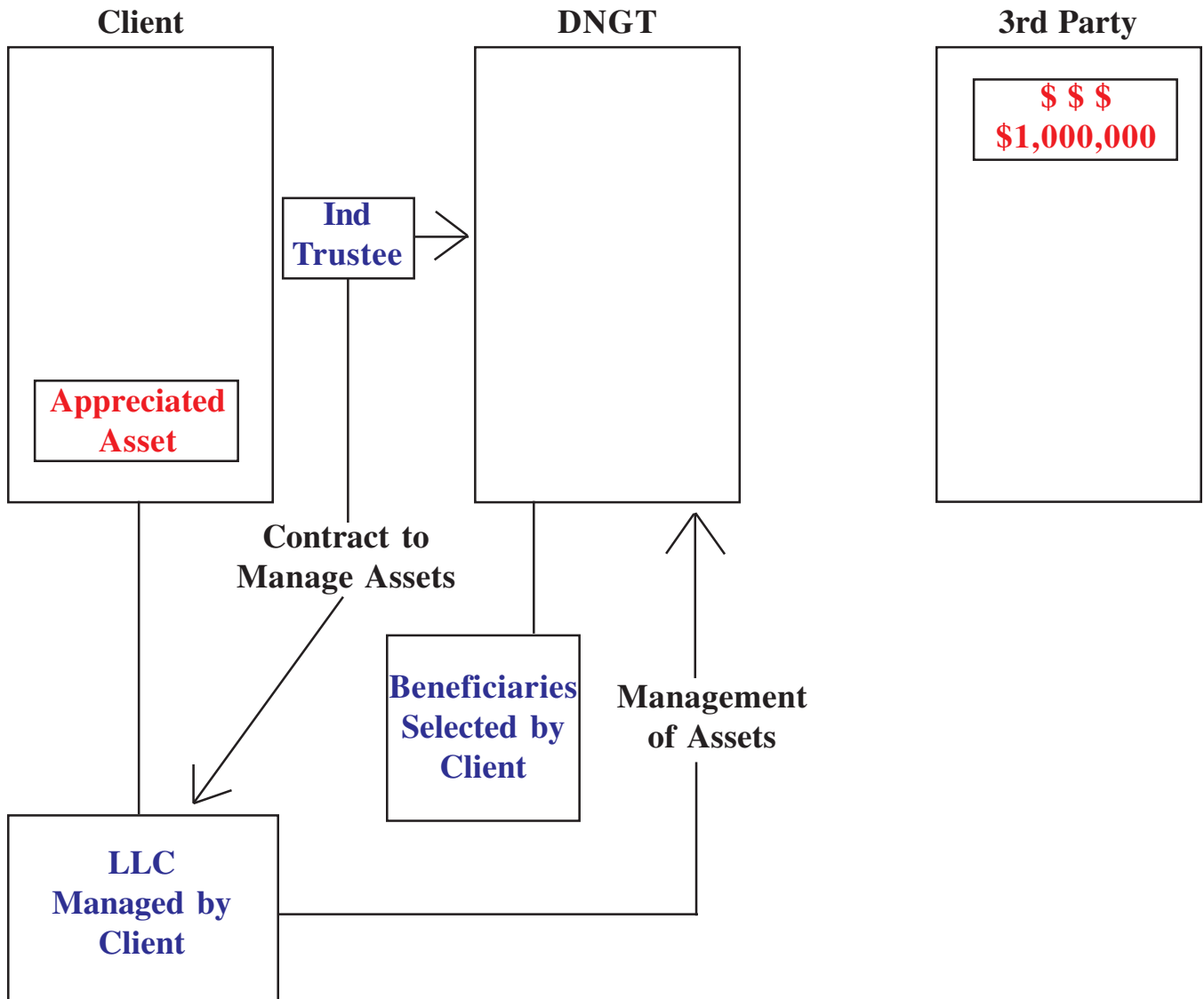
3rd Party



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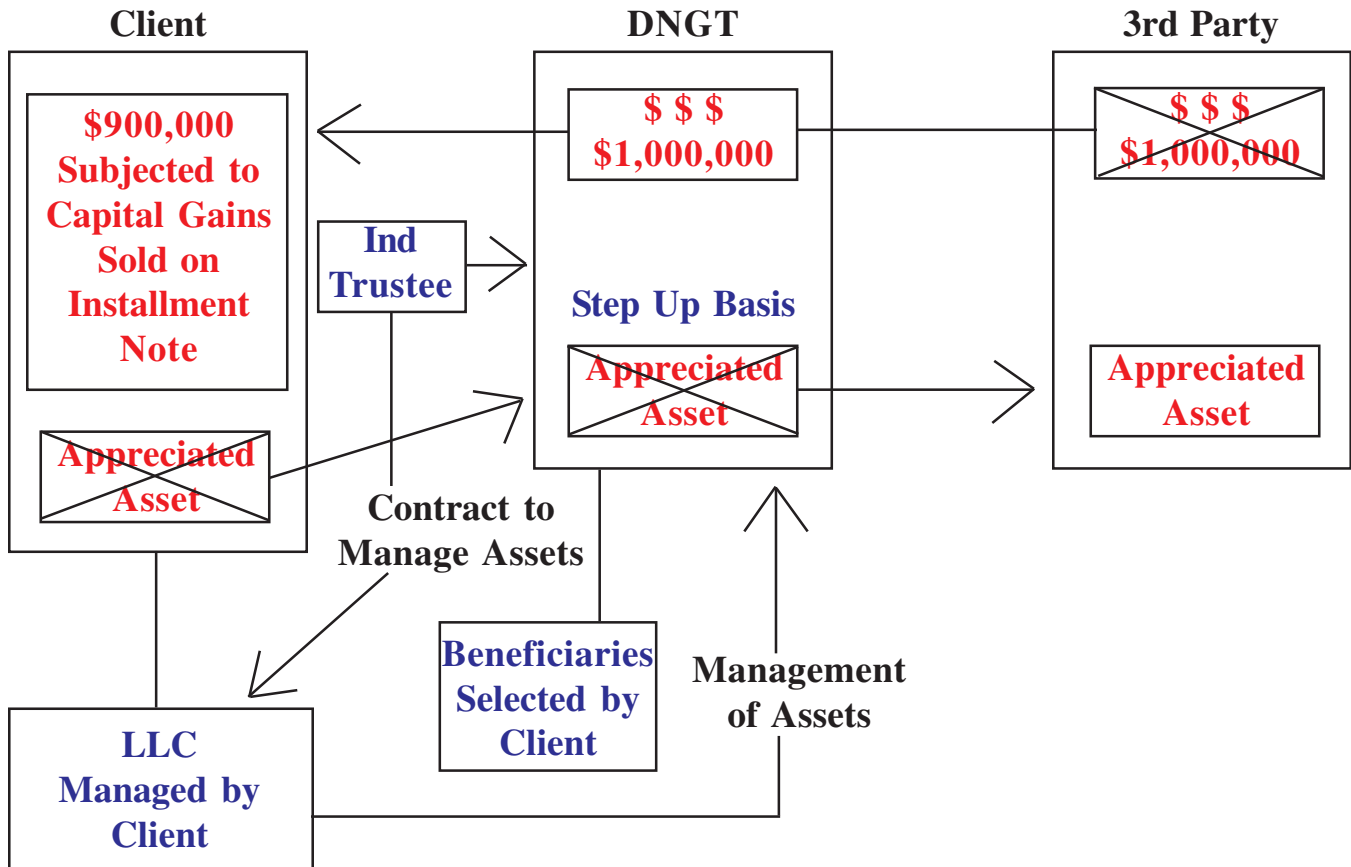
Chart 3



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Chart 4



Capital Gains Tax Chart

<u>Line 37 (AGI)</u>		<u>Tax Status</u>	<u>Rate</u>
From \$0	- \$36,251	Single	Zero
Over \$36,252	- \$199,999	Single	15% Break Point
Over \$200,000	- \$399,999	Single	15% + 3.8%
Over \$400,000		Single	20% + 3.8%
From \$0	- \$72,501	Joint	Zero
Over \$72,502	- \$249,999	Joint	15% Break Point
Over \$250,000	- \$449,999	Joint	15% + 3.8%
Over \$450,000		Joint	20% + 3.8%

DNGT purchases appreciated asset from client using an Installment Note that causes line 37 of client's 1040 to drop below break point.

**Capital Gains \$900,000 x 8.8% = \$79,200 in Capital Gains Taxes Savings
(23.8 Rate vs 15.0 Rate = 8.8)**

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Chart 5

Let's assume that the Installment Note with interest pays out in 11 years. We have established in Chart #1 that the magic number - the starting amount that under these sets of circumstances will be available to invest is \$282,780 (the amount that would otherwise be paid to the IRS as capital gains tax). Let's further assume that this amount can be invested at a four (4) % return which equals approximately \$5,600 a year x 11 years = \$61,600 in investment income. Over an 11 year period that would give us an average investment of approximately \$141,000.

Recap (Numbers are for illustration point)

Magic Number - Capital Gains Tax Due		\$282,780
Rate Adjustment Through Installment Sale	\$79,200	
Investment Income	<u>\$61,000</u>	
	\$140,200	
 Total Earned/Saved Through Using the Engineered Process		 <u><\$140,200</u>
 Making the True Capital Gains Tax Paid Over 11 Years		 \$142,590

Let's assume that we stretch the Installment Note and look at a 5 year interest only then an 11 year amortized Installment Note. Then let's look at a 10 year interest only Installment Note followed by an 11 year amortized Note.

Recap (Numbers are for illustration purposes)

Let's go a step or two further. \$282,780 (Magic Number)

<u>Savings</u>	<u>5Years Interest Only</u>	<u>10 Years Interest Only</u>
Interest Only Gains Investment Income	\$56,556	\$113,110
Capital Gains Engineered Rate Savings	\$79,200	\$79,200
Amortized Over 11 Years Investment Income	<u>\$61,000</u>	<u>\$61,000</u>
	\$196,756	\$253,310
 True Capital Gains Tax	 \$87,024	 \$29,470